Cover Statement by the OECD/G20 Inclusive Framework on BEPS on the Reports on the Blueprints of Pillar One and Pillar Two

Digital transformation spurs innovation, generates efficiencies, and improves services while boosting more inclusive and sustainable growth and enhancing well-being. At the same time, the breadth and speed of this change introduces challenges in many policy areas, including taxation. Reforming the international tax system to address the tax challenges arising from the digitalisation of the economy, restore stability to the international tax framework and prevent further uncoordinated unilateral tax measures has therefore been a priority of the international community for several years, with commitments to deliver a consensus-based solution by the end of 2020.

The current context of the COVID-19 pandemic makes the need for a solution even more compelling than when it was first considered. Governments have responded through increased spending on healthcare and by providing unprecedented levels of financial support to both businesses and workers to cushion them from the economic blow of this crisis. However, the time will come when governments will need to focus on putting their finances back on a fair and sustainable footing.

A consensus-based solution comprised of two pillars (Pillar One focused on nexus and profit allocation whereas Pillar Two is focused on a global minimum tax intended to address remaining BEPS issues) can not only play an important role to ensure fairness and equity in our tax systems and fortify the international tax framework in the face of new and changing business models; it can also help put government finances back on a sustainable footing. The public pressure on governments to ensure that large, internationally operating, and profitable businesses pay their fair share and do so in the right place under new international tax rules has increased as a result of the current COVID-19 pandemic. At the same time, a consensus-based solution could provide businesses with much needed tax certainty in order to aid economic recovery.

Against this background, despite their differences, and the COVID-19 pandemic, which has had an impact on the work, the members of the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) have made substantial progress towards building consensus. The Inclusive Framework is releasing today a package consisting of the Reports on the Blueprints of Pillar One and Pillar Two, which reflects convergent

views on a number of key policy features, principles and parameters of both Pillars, and identifies remaining political and technical issues where differences of views remain to be bridged, and next steps.

We approve the *Report on the Pillar One Blueprint* for public release. It is designed to deliver a sustainable taxation framework reflective of today's digitalising economy, with the potential to achieve a fairer and more efficient allocation of taxing rights. The Blueprint reflects the extensive technical work that has been done. Though no agreement has been reached, the Blueprint nevertheless provides a solid foundation for a future agreement that would adhere to the concept of net taxation of income, avoid double taxation and be as simple and administrable as possible. The Blueprint offers a solid basis for future agreement and reflects that:

- in an increasingly digital age, in-scope businesses are able to generate profits through participation in a significant/ active and sustained way in the economic life of a jurisdiction, beyond the mere conclusion of sales, with or without the benefit of local physical presence and this would be reflected in the design of nexus rules while being mindful of compliance considerations;
- the solution would follow the policy rationale set out above and allocate a portion of residual profit of in-scope businesses to market/user jurisdictions ("Amount A");
- the solution would be targeted and build in thresholds so that it minimises compliance costs for taxpayers and keeps the administration of the new rules manageable for tax administrations;
- Amount A would be computed using consolidated financial accounts as the starting point, contain a limited number of book-to-tax adjustments and ensure that losses are appropriately taken into account;
- in determining the tax base, segmentation would be required to appropriately target the new taxing right in certain cases, but with broad safe-harbour or exemption rules from segmentation to reduce complexity and minimise burdens for tax administrations and taxpayers alike;
- the solution would contain effective means to eliminate double taxation in a multilateral setting;
- the work on Amount B will be advanced, (a fixed rate of return on base-line marketing and distribution activities intended to approximate results determined under the arm's length principle) recognising its potentially significant benefits including for tax administrations with limited capacity as well as its challenges;
- the Pillar One solution would contain a new multilateral tax certainty process with respect to Amount A, recognising the importance of using simplified and co-ordinated administrative procedures with respect to the administration of Amount A;
- a new multilateral convention would be developed to implement the solution, recognising that it would offer the best and most efficient way of implementing Pillar One.

We will now focus on resolving the remaining political and technical issues, including issues around scope, quantum, the choice between mandatory and safe harbour implementation, and aspects of the new tax certainty procedures with respect to Amount A, and the scope and form of new and enhanced tax certainty procedures for issues beyond Amount A.

We also approve the *Report on the Pillar Two Blueprint* for public release. It provides a solid basis for a systemic solution that would address remaining base erosion and profit shifting (BEPS) challenges and sets out rules that would provide jurisdictions with a right to "tax back" where other jurisdictions have not exercised their primary taxing rights, or the payment is otherwise subject to low levels of effective taxation. These rules would ensure that all large internationally operating businesses pay at least a minimum level of tax. We acknowledge that jurisdictions are free to determine their own tax systems, including whether they have a corporate income tax and the level of their tax rates, but also consider the right of other jurisdictions to apply an internationally agreed Pillar Two regime where income is taxed below an agreed minimum rate. Though no agreement has been reached, the Blueprint provides a solid basis for future agreement on:

- the Income Inclusion Rule (IIR), the Undertaxed Payments Rule (UTPR), the Subject to Tax Rule (STTR), the rule order, the calculation of the effective tax rate and the allocation of the top-up tax for the IIR and the UTPR, including the tax base, the definition of covered taxes, mechanisms to address volatility, and the substance carve-out;
- the IIR and UTPR as a common approach, including an acceptance of the right of all members of the IF to implement them as part of an agreed Pillar Two regime. It would nevertheless be recognised and accepted that there may be members that are not in a position to implement these rules. However, all those implementing them would apply them consistently with the agreed Pillar Two vis-à-vis all other jurisdictions (including groups headquartered therein) that also join this consensus. Furthermore, given the importance that a large number of IF members, particularly developing countries, attach to an STTR, we recognise that an STTR would be an integral part of a consensus solution on Pillar Two;
- the basis on which the United States' Global Intangible Low Taxed Income Regime (GILTI) would be treated as a Pillar Two compliant income inclusion rule as set out in the Report on the Blueprint on Pillar Two;
- the development of model legislation, standard documentation and guidance, designing a multilateral review process if necessary and exploring the use of a multilateral convention, which could include the key aspects of Pillar Two.

We welcome stakeholder input into this process on both pillars, in particular on administration and simplification rules, which would help inform the further development of the consensus-based solution.

Next steps

We agree to swiftly address the remaining issues with a view to bringing the process to a successful conclusion by mid-2021 and to resolve technical issues, develop model draft legislation, guidelines, and international rules and processes as necessary to enable jurisdictions to implement a consensus based solution.



From:

Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint

Inclusive Framework on BEPS

Access the complete publication at:

https://doi.org/10.1787/beba0634-en

Please cite this chapter as:

OECD (2020), "Cover Statement by the OECD/G20 Inclusive Framework on BEPS on the Reports on the Blueprints of Pillar One and Pillar Two", in *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint: Inclusive Framework on BEPS*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/e861e553-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.